How to start a company? Analysis of three start-up companies in Finland

ClipMe, JerryBag and Tutor Tigers

Phuc Lam

Bachelor Thesis

International Business

2014

DEGREE THESIS	
Arcada	
Degree Programme:	International Business
Identification number:	12911
Author:	Lam Phuc
Title:	How to start a company? Analysis of three start-up companies in Finland: ClipMe , JerryBag and Tutor Tigers
Supervisor (Arcada):	Sveinn Eldon
Commissioned by:	

Abstract:

Start-up is becoming a trend in the current economy condition while huge and global companies are still not a safe place. However, there are not so many start-ups that have succeeded in their paths. Majority of failures come from financing aspects of start-up in the early stage.

This paper studies the effective financing methods for start-ups in general. The thesis aims to construct and consolidate theories around financing topic in order to offer recommendations after the finding. The thesis reviews start-up company, capital needed for start-ups, sources of financing, and process. Qualitative researches based on interview techniques were conducted, which was then combined with pattern matching comparison approach for final findings.

The thesis has illustrated that personal network is the key factor to attract investors along with unique and viable idea. In addition, entrepreneurs need to take into account the bootstrapping method which is effective for financing in early stage. With three case studies, the thesis also emphasizes the importance of entrepreneur's presentation skill when pitching idea to lenders and investors.

Keywords:	start-ups, start-ups in finland, financing start-ups, sources of funding, sources of financing, ClipMe, JerryBag, Tutor Tigers

Number of pages:	47
Language:	English
Date of acceptance:	

CONTENTS

Figures

Tables

FOREWORD

I would like to express my gratitude to my family, who always give me their endless love and support, not only in my study, but also to my life. Especially, I want to thank Ngan Lam, my sister for her recommendations in choosing the topic for my thesis.

My special appreciation goes to Mr. Sveinn Eldon, for his enthusiasm and helpful guidance with my thesis.

I also would like to thank Oladimeji Joseph Fakayode, Kai Lemmetty, Joong Yeol Park and Seunghyun Han, who managed their busy schedules to answer my interview questions enthusiastically, so that I can completely conduct the empirical data for my thesis.

Lastly, I thank my all friends for their concerns and encouragement during my study in Arcada.

Helsinki, 2014.

1 INTRODUCTION

1.1 Background of problem

When talking about Finnish start-ups, people usually think about Rovio and Supercell as two typical examples of successful start-ups. These companies both derived from small business and turned into well-known successful global gaming corporations. Besides, start-ups in Finland have been attracting many investments and gaining 12 percent share of all European investment (Li, 2013a). This leads Finland to third place (behind UK and France) in equity financing in Europe.

Retrospectively, like many other countries, Finland also had a nascent start-up scene in which many young and ambitious people trying to establish their own businesses. In addition, there are some people starting their own companies after being unemployed during the economic crisis. Likewise, more and more start-ups have been established with countless effort, but the result is quite minimal due to the lack of early-stage money. Therefore, in order to boost the Finnish start-up ecosystem, a program named Vigo was launched by the Finnish Ministry of Employment and Economy in 2009. The purpose of Vigo program is to bridge the gap between early-stage start-ups and international venture funding, and in long term to recreate the VC industry for early-stage start-ups.

Start-up businesses have become popular and generated many profits. For instance, Finnish start-ups have been successfully proving that it is possible to turn a start-up into a \$200m-revenue-business. For that reason, the author would like to make an in-depth analysis about start-up funding in Finland. Recently established start-ups - ClipMe, JerryBag, and Tutor Tigers are the three case studies analyzed in order to support this paper.

1.2 Objective and research question

The research aims of this paper are to study the ways of financing in start-up cases, and to discuss the extent of financing strategy in early stage as well as the effective financing procedures.

The research question the author attempts to answer in this thesis is: What can entrepreneurs do in order to increase chance of success in start-up financing? Besides, there are some sub question the author would like to research in order to draw the conclusion for the main research question. These sub question are:

- How to raise capital for start-up?
- Why does start-up need to follow the preparation process of funding?
- Which type of sources is more preferable for entrepreneurs?
- Have entrepreneurs used any bootstrapping methods in early phase? And why?

In the paper, in order to ensure the research area, literature review will be presented on capital needed for start-up, sources of financing including 2 main sources which are equity and debt financing, and also other sources of financing.

2 LITERATURE REVIEW

2.1 Start-up company

The term start-up nowadays has been mentioned and discussed in many business conferences and meetings with increasing frequency over the past few years. While entrepreneurs are searching for start-up opportunities, there are still some misunderstandings and ambiguities in its definition. First of all, majority of people today are still misunderstanding about start-up and small business differentiation. Even though both small businesses and start-ups have a high mortality rate, but start-up is designed to scale much quickly as developing to being a large business or fail and move on another opportunity. Moreover, small businesses are executed in a known business models while start-ups aim for a completely unknown business model in order to penetrate existing markets or even better create its own ones.

Actually, there is no precise definition of a start-up because start-up models are wide. Plus, it is not also restricted by the number of years that start-up has been in business, or the amount of revenue. For example, a company that is generating revenues below $20 million, remains its ownership and has less than 80 employees is still a start-up. Likewise, a new established enterprise aiming to take over the world but not yet has an official office is still a start-up.

As Ries tried to capture the essential nature of start-up in his article "What is a start-up?" by stating:

> A start-up is a human institution designed to deliver a new product or service under conditions of extreme uncertainty (Ries, 2010).

In other words, being a start-up is working under many uncertainty conditions while offering a new sources of value that can create an actual impact on customers.

2.2 Capital needs for start-up

Before going into details about each sources of financing, the author would like to explain about the capital needs so-called as the seed money raised by entrepreneurs for starting up business. According to Scarborough (2009, p.421):

> Capital is any form of wealth employed to produce more wealth. It exists in many forms in a typical business, including cash, inventory, plant, and equipment.

There are 3 different types of capital required for small businesses include: fixed capital, working capital and growth capital. Within business operation, these 3 types of capital are commonly interdependent; each has certain sources, characteristics and effects toward business and its long-term growth that entrepreneurs have to take into account.

2.2.1 Fixed capital

Fixed capital is money used for purchasing fixed assets such as building, land, computer, and equipment. Frequently, it is required large sum of money to purchase fix assets and hence credit terms normally are lengthy.

2.2.2 Working capital

Within the company operation, the in and out of cash flow is often uneven since business is changing time to time due to seasonal fluctuation such as credit sales, seasonal sales swing, or unforeseeable change in demand. That is when a need for temporary money arises in order to solve company short-term operation and it is referred as working capital. It is defined as current assets minus current liabilities by accountants and used in these activities: buy inventories, pay bills, finance credit sales, pay wages and salaries and some unexpected emergencies.

2.2.3 Growth capital

Growth capital, in contrast to working capital, is not used for current operation of company and not related to the seasonal fluctuation. Instead, growth capital is raised for the purpose of expanding company like improving plant size, buying more equipment, and increasing sale and production workforce.

2.2.4 The need for funding

The importance of fixed capital, working capital and growth capital in early stage of start-up is undeniable. However, it is absolutely troublesome for entrepreneurs to have sufficient fund to cover these capital at early stage. Specifically, it is the amount of cash needed to purchase inventories, hire and train employees, buy fixed assets or the cost for long-term investment. As Barringer and Ireland (2010) had mentioned three reasons why most entrepreneurial ventures need to raise money during early stage in the Figures 1 following:

Figure 1. Three Reasons Start-ups Need Funding (Barringer and Ireland, 2010)

Hence, entrepreneurs need to understand the role of these investment capitals in order to lead the firms to success.

2.3 Sources of financing

2.3.1 Sources of personal financing

There is no banker or investor willing to invest in a start-up project in which the founder cannot prove the financing effort for the business himself or herself. It means before finding the right and suitable investors, founders must use their own pockets to operate the business. There are 3 types of sources of personal financing: personal savings, friends and family and bootstrapping. This is always the first approach of start-ups financing each entrepreneur need to execute, as Barringer and Ireland described: “The effort is often a grueling endeavor”. (Barringer and Ireland, 2010)

Personal savings

The Global Entrepreneurship Monitor (GEM) reports that the average cost to start a business is $65,000 while 62 percent belongs to the entrepreneur (Bygrave and Quill, 2006).

The first source that every entrepreneur has to look into for start-up is their own money. There are 3 mains reasons why this source must be in the consideration of entrepreneurs. Firstly, lenders and investors are not willing to put and risk their money into company while the founder has not put their own money. Secondly, in the entrepreneurs' point of view, failing to put up sufficient capital of their own equal to give up the share of ownership to outsiders. Finally, if entrepreneurs run a start-up company without their own invested capital or a very little amount of money, they have to exceed the borrowing amount of capital resulting in intense pressure on cash flow of company. Nevertheless, personal savings is the most common sources of equity funds used to start a small business.

Friends and family members

Besides personal savings, friends and family members are the second sources that entrepreneurs should take into account due to their relationship. Normally, the amount of investment from this source are relative low but it will contribute enough for a young business to attract money from private investors or venture capital companies. The only one but important thing entrepreneurs need to pay attention to is avoiding the vagueness about the business. The founder must explain carefully to friends and family members about the investment opportunity, risk involved or legal problems since it could have destroyed friendship and ruin the family relationship in case business fails.

Bootstrapping

Bootstrapping is one of the most effective and inexpensive ways that the founder need to implement in order to ensure a positive cash flow. In another word, it means all the activities that reduce the cost as well as using less money as possible for an effective operating. Barringer and Ireland (2010, p.344) defined the term bootstrapping in the book "Entrepreneurship Successfully Launching New Ventures" as:

> Bootstrapping is finding ways to avoid the need for external financing or funding through creativity, ingenuity, thriftiness, cost-cutting, or any means necessary.

One of the most common examples is about Steve Jobs and his partner Steve Wozniak for selling a Volkswagen van and a Hewlett-Packard programmable calculator to raise $1350 as the seed capital for Apple Computer (Barringer and Ireland, 2010). Majority of successful start-ups entrepreneurs are all using bootstrapping methods to raise money or cut costs. According to Antti Vilponnen, the former ArticStartup CEO: "You have bootstrap quite far by yourself before you can actually attract proper funding" (Li, 2013b). Following is the some examples of bootstrapping which are illustrated in form of Table 1.

Table 1. Examples of Boostrapping Methods (Barringer and Ireland, 2010)

- Buy used instead of new equipment
- Coorinate purchase with other businesses
- Lease equipment instead of buying
- Obtain payments in advance from customers
- Minimize personal expenses
- Avoid unnecessary expenses, such as lavish office space or furniture
- Buy item cheaply but prudently through discount outlets or online auctions such as eBay, rather than at full-price stores
- Share office space or employees with other businesses
- Hire interns

2.3.2 Sources of equity financing

Equity capital is also called risk capital as it is the money invested by personal in business and there are possibilities of losing the investor's fund if the business fails. The main advantage of equity capital to entrepreneurs is that it does not have to be repaid like a loan. Thus, investors get the share in company's earning if the business succeeds and also can affect the company's future direction. In another words, it is the trading between founder and investor as founder have the money to run the business operation while investors are gaining some ownership in the business. For that reason, it also causes the primary disadvantages of equity capital since the entrepreneurs are easily losing control and forced out of the business. There are various sources of equity capital and some common sources will be mentioned in this research paper.

Angels

Angels or private investors in term of business are people invest money into start-up companies in exchange for equity stakes. They are wealthy individuals with strong capital or often entrepreneurs themselves looking for potential investment and promising companies. Moreover, they are also looking for start-up companies operating in the areas that they have experiences and personal interest. As a result, companies are not only received money but also their knowledge, experiences, energies as well as advices and the network of contact. Typically, angels look for many companies and almost always invest their money locally hence entrepreneurs should first look around them.

In general, angels financing is an ideal sources for start-up companies after they have made use of the capacity from personal savings, friends and family members. In addition, it is a primary source in the early growing stage since at this time the businesses are not big enough to attract interest from venture capital companies.

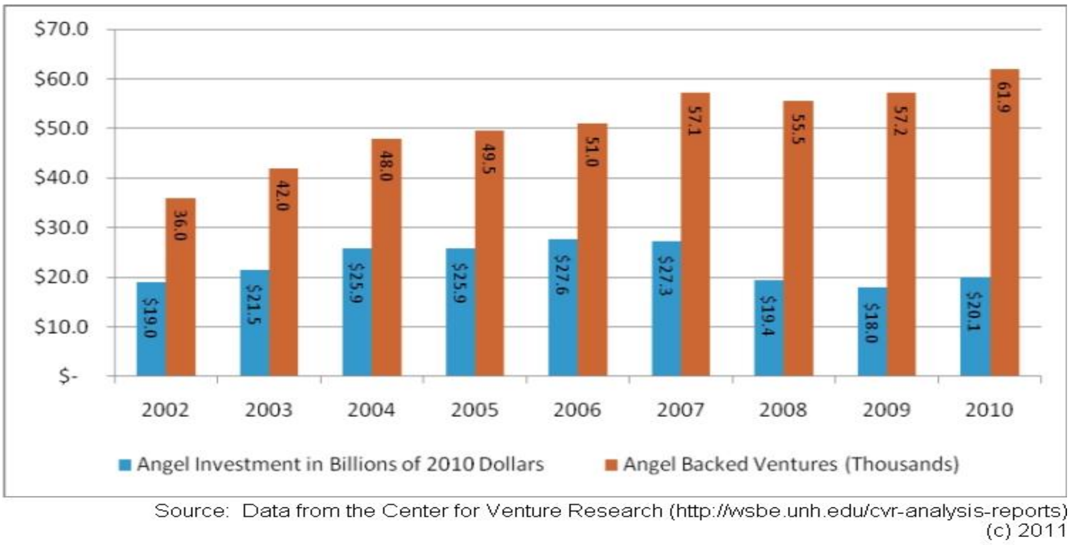

Figure 2. Amount of Angel Investment and Number of Companies Financed by Angels from 2002 to 2010 (Small Business Trends)

In fact, angels invest more money in small companies, and it is 15 times the amount of companies as venture capital firms do. According to an analysis by University of New Hampshire's Center for Venture Research, in 2006, $25,6 billion has been invested into 51000 small companies by 234 000 angels all over the world (Small Business Trends).

Venture capital companies

Venture capital is the third or fourth stage of start-up equity financing process after these sources mentioned above. Conventionally, angel investors are sometimes said to invest based on personal interest while venture capitalists are investing money logically. There are no word “risk” in their operation since they tend to make investment without element of risk involved. Venture capitalists assure the successful investment within their knowledge and business sense. As Scarborough (2009, p.428) said:

> Venture capital companies (VCs) are private, non-profit organizations that purchase equity positions in young business they believe have high-growth and high-profit potential, producing annual returns of 300 to 500 percent over five to seven years.

However, logically investment does not means it is not risky and always successful. In fact, along all the investments that venture capitalists have made, some of them will not eventuate. According to Barringer and Ireland (2010, p.352):

> …most venture firms anticipate that about 15 to 25 percent of their investments will be home runs, 25 to 35 percent will be winners, 25 to 35 percent will break even, and 15 to 25 percent will fail.

For that reason, the home runs must yield astounding net profit to cover for the break even and failures investments.

Ordinarily, the minimum amount of investment from a venture capital company ranges from $50 000 to $ 5 million. As a consequence, many applications applied for the fund but they only invest less than 1 percent in all of the application received. Anyhow, the firm that is qualified will receive supports in terms of financial and wide network as: “venture capitalist are extremely well connected in the business world….they have a large number of useful contacts with customers, suppliers, government representatives, and so forth” (Barringer and Ireland, 2010).

Furthermore, qualified start-ups need to go through the due diligence process with venture capital firm. The due diligence process is seem as an important part of obtaining venture capital funding where start-ups firm and venture capitalists are working together to assure a good match up from both side. The due diligence process is conducted by entrepreneurs of start-up firm and need to be checked before accepting funding from venture capital. The following questions should be asked in the process is:

- Do the venture capitalists have experience in the industry?
- Do they take a highly active or passive management role?
- Are the personalities on both sides of the table compatible?

- Does the firm have deep enough pockets or sufficient contacts within the venture capital industry to provide follow-on rounds of financing?
- Is the firm negotiating in good faith in regard to the percentage of our firm they want in exchange for their investment? (Barringer and Ireland, 2010, p.353)

Regularly, most venture capital firms do not make just a single investment in a company. Instead, they invest money based on several stages of company where the total sum of investment can be up to $10 to $15 million or more. Following is the graph that illustrates the funding by stage of venture capital (YS Research, 2012)

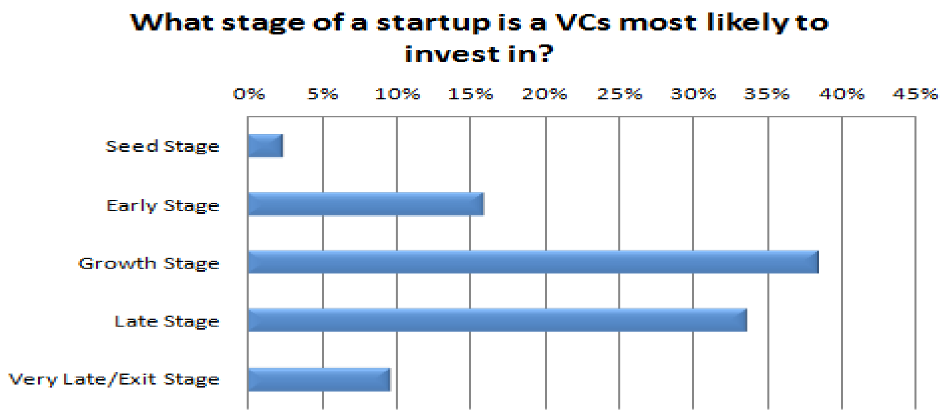

Figure 3. Venture Capital funding by Stage (YS Research, 2012)

Furthermore, VCs usually establish rigorous policies in order to manage their overall investment strategies which are:

- Investment size and screening
- Ownership
- Stage of Investment
- Advice and Contacts
- Control
- Investment Preferences

Due to the lack of timing and to avoid the away from topics, the author will not go in details about the investment strategies of venture capital companies.

Public stock sale

Public stock sale or going public is the way of raising capital by selling shares of stock to outside investors, and that process is called initial public offering (IPO). IPO is an effective method when it comes to raise large amounts of capital but it is also time-consuming and expensive with many regulatory. Entrepreneurs need to make decision carefully about going public by consider these following advantages and disadvantages of IPO.

Table 2. Advantages and disadvantages of IPO

The advantages	The disadvantages
• Ability to raise large amounts of capital • Improved corporate image • Improved access to future financing • Attracting and retaining key employees • Using stock for acquisitions • Listing on a Stock Exchange	• Dilution of founder's ownership • Loss of control • Loss of privacy • Regulatory requirement and reporting

2.3.3 Sources of debt financing

Debt financing is opposed to equity financing as entrepreneurs borrow money and must repay with interest but they still can remain their ownership of the business. Due to the outstanding rate of lenders to investors, the capital loans are also difficult to obtain. Plus, the interest rate is also higher since investing in small business is seemed to have greater risk than bigger corporate firms.

In the next section, the author is going to analyze the debt financing sources which relate to bank, and expects to offer readers a good understanding in order to increase the chances of obtaining a loan.

Commercial banks

Within 64.7 percent of all traditional debt provided to small businesses by commercial banks, this is the primary source of borrowing capital (Ou, 2006). As the matter of fact, start-up business is too risky hence banker prefer to make loans to established small business and mostly less than $100 000. In most start-up investment cases, banker would like to see significant investment from the owner, sufficient cash flows to repay the loan, ample collateral to secure it, or a guarantee from an organization (Scarborough, 2009).

There are only 12 percent of entrepreneurs received bank loans for their start-up businesses (Hopkins, 2006). Barringer and Ireland also indicated 2 reasons why banks have historically been reluctant to lend money to start-ups. The first thing is that bank typical feature is risk averse as well as bank's policies and regulatory restrictions do not allow them making high-risk loans. Meanwhile, as mentioned previously, start-ups businesses are risky along with little collateral that are not enough to meet the standard requirement from bankers. The second reason is that lending money to small businesses is not as profitable as lending to large firms. Within the same time and effort, bankers are easily to scrutinize the risk possibilities of large firms than the new established start-ups. For a requesting loan from start-ups, bankers also need to do the due diligence process, research business plan and investigate the merits. Thus, bankers are not willing to spend much efforts while getting less in return.

On the other hands, some banks have realized the growth potential and start to engage start-ups businesses. They have taken reconsideration and have modified the lending standards by focusing on cash flow and the strength of management team rather than on collateral and the strength of balance sheet. Basically, there are 2 common types of loans which will be described next.

- ***Short-term loans***

Short-term loans are extended for less than one year. This loan is usually used to finance the purchasing and sales in company operation. Later, the owner repays the loan after converting inventory and receivable into cash. This is the most common type of loans that banks offer to small business. Some type of short-term loans (Scarborough, 2009):

- Commercial loans: Within this type, entrepreneurs do not need to pledge any specific collateral to support the loan but to prove its financial strength and solid cash flow enough to qualify the bank's grants. The time of payment is not fixed as long as within one year and usually it is from 3 to 6 months.
- Lines of credit: It is the money available allowed by banks for entrepreneurs to borrow. Instead of borrowing a specific amount of money and repaying over time with a specific interest rate, the banks allow entrepreneurs to draw money from the lines of credit so long as the amount does not exceed the limit. For that reason, unlike loans, entrepreneurs are only charged for the money they withdraw.

- ***Intermediate and long-term loans***

For intermediate and long-term loans, the length is always one year or longer, and normally used to increase fixed and growth capital (mentioned in section 2.1 above). There are some types of loan (Scarborough, 2009):

- Term Loans
- Installment Loans
- Discount Installment Contracts
- Character Loans

Due the purpose of the paper which is funding for new start-up companies in the early stages hence the author will not mention more about this section because it is emphasized in the different stages of company.

2.3.4 Other sources of financing

Aside from those way of financing above, entrepreneurs can also take into account some following ways of financing as consideration.

Public institution

Ordinarily, the government of a country always has grant program in order to support fledging businesses particularly or boost the country economy in general. In Finland, the main public funder is Tekes. During 2013, Tekes has pouring €557m in total for funding for companies and research organizations hence it is the reason for the success of Finland's start-ups (will be discussed later in section 4.2).

Corporate venture capital

For equity financing, corporate venture capital refers to look for partners before setting up company in order to expand the seed capital base of business. Another ways is to get support and money from large corporations since they are also looking for benefit and innovative products from small and young businesses. It is difficult in finding corporate venture capital but entrepreneurs will receive many advantages once they get a fine corporate partner.

> The right corporate partner may share technical expertise, distribution channels, marketing know-how, and provide introductions to important customers and suppliers. Another intangible….is credibility, often referred to as market validation. (Scarborough, 2009, p.432)

Peer-to-peer lending

For debt financing, there are varieties of sources that start-ups entrepreneurs can seek to borrow money. Except for getting loans from family, friends or from bankers, there are still one more channel for borrowing fund known as peer-to-peer lending. Peer-to-peer lending is the process whereby a group of people come together to lend money to each other (Zwilling, 2013). It is operated as a website that is industrial-scale online financial matchmakers (Lewis, 2014). In another word, these websites match people who want to borrow money with people who are willing to make loans (Barringer and Ireland, 2010).

Leasing

> A lease is a written agreement in which the owner of a piece of property allows an individual or business to use the property for a specified period of time in exchange for payments (Barringer and Ireland, 2010, p.358).

The major advantages of leasing is allowing entrepreneurs to ensure the cash flow in the early stage of start-ups. By leasing, entrepreneurs can use the assets with a very little down payment or even not at all. There are 2 common types of leasing which is lease for facilities and lease for equipment. Typically, entrepreneurs will choose lease equipment as an option for start-ups due to the advantages that office equipment such as computers or copy machines are quickly become technologically obsolete.

Crowdfunding

The term crowd-funding was reported by Michael Sullivan who started a fund raising effort to build a video blogging community in 2006 (Koba, 2013). Usually, crowd-funding takes place through the internet where applicants create an online profile to explain their goals of raising fund and share the project publicly to attract investors.

Crowd funding is a term of acquiring money from collecting a small amount of a large number of investors to attain a certain monetary goal. Crowd funding is also about the platforms, networks of people who are willing to pool their money and resources to help establishing start-up.

3 METHODOLOGY

In order to answer the research question, the researchers need to conduct an appropriate research design. In other words, a research design should contain clear objectives, sources of collecting data, limitations of the research methods as well as ethical issues. As Saunders, Lewis and Thornhill stated (2009, p.136):

> Your research design will be the general plan of how you will go about answering your research question…

Therefore, the author needs to understand the importance of research design and considers carefully before proceeding practicalities.

3.1 Purpose of the research

First of all, one must comprehend what purpose he/she is pursuing. There are three popular classifications of research purpose including exploratory, descriptive and explanatory (Saunders, Lewis and Thornhill, 2009, p.139). In short, these categories can be defined as follows:

- Exploratory studies serve well to seek insights and approach the phenomena from a new perspective. They are more adequate to apply when the research problem is badly understood (Ghauri, Grønhaug and Kristianslund, 1995, p.28).
- Descriptive studies attempt "to portray an accurate profile of persons, events or situations" (Robson, 2002, p.59). Such studies show their effectiveness when there is a demand to have a clear vision over the phenomena.
- Explanatory studies (or causal studies) answer the causal relationships between variables (Saunders, Lewis and Thornhill, 2009, p.140).

The aims of this research paper are to describe ways of funding for start-up and through that build a suitable financing approach; therefore, this thesis is both of descriptive and explanatory study. This case is also mentioned by Saunders and his cowriters (2009, p.140),

> …if your research project utilizes description it is likely to be a precursor explanation. Such studies are known as descripto-explanatory studies.

3.2 Research method

After determining the purpose of study, the author has to decide which research methods should be used such as qualitative, quantitative or both. According to Saunders and his cowriters (2009, p.151):

- Quantitative method is used as a synonym that implies data collection technique or data analysis procedure that generates or uses numerical data.
- Qualitative method is used as a synonym that implies data collection technique or data analysis procedure that generates or uses non-numerical data.

As mentioned above, qualitative method is often used to gain insights of unstructured problems. Nevertheless, in order to understand the significant of choosing the right financing toward start-ups as well as the entrepreneur's viewpoint on how to approach the suitable funding, the researcher believes qualitative method is more effective regarding the purpose of research.

3.3 Research strategy

Based on the research question and objectives, together with all the available sources, time and knowledge, the author will decide the own strategy for research. The research strategy is referred as the process of data collecting and analysis. In other words, it describes in detail how the research is conducted.

3.3.1 Case study

According to the research question of the paper, the author believes case study is the most suitable among all the qualitative methods. As the research questions related to "how" and "why" questions (mentioned in section 1.2), a case study method is favored as a research strategy (Ghauri, Grønhaug and Kristianslund, 1995, p. 88). Besides, case study is a useful method to gain insight of the problem especially when the researchers have little experiences in a field and there is not enough theoretical framework to support. (Ghauri, Grønhaug and Kristianslund, 1995, p. 87).

According to Meer-Kooistra (1993), "…if we are studying a specific and complex issue, we should perhaps study a bigger firm, as these firm experiences complex problems and have expertise in-house that can provide us with in-depth information on the particular issue". In this research, 3 start-up companies, ClipMe, JerryBag and Tutor Tigers, are chosen as the case studies for their success in raising capital for initial investment.

A comparative method is used to compare these companies in order to explore different dimensions of the research issue and to examine different level of research variables (Ghauri, Grønhaug and Kristianslund, 1995, p. 88). The comparison criteria between 3 cases company are based on these patterns including origination of ideas, sources of financing, financing strategy, approaching methods, entrepreneur's viewpoint. The synthesis of all collected data is presented in Table 3.

Table 3. Comparison criteria for three cases analyze

Criteria	Case Company 1	Case Company 2	Case Company 3
Origination of idea			
Sources of financing			
Process of financing			
Financing strategy			
Approaching methods			
Entrepreneur' s viewpoint			

3.3.2 Interview

Saunders, Lewis and Thornhill (2009, p.141) emphasized that: "…these strategies should not be thought of as being mutually exclusive. For example, it is quite possible to use the survey strategy as part of case study". Nevertheless, the author in this research also has the same strategy that using interview as a part of case study.

Commonly, there are 3 types of interview regarding to the level of formality and structure:

- structured interviews
- semi-structured interviews
- unstructured or in-depth interviews

Structured interviews use a set of predetermined and standardized question to ask the respondent. Within structured interviews, the researcher reads out the question exactly as written in the same tone of voice so that it does not create any bias (Saunders, Lewis and Thornhill, 2009, p.320). In contrast, unstructured interviews are informal whereby there is no predetermined list of questions from researcher and interviewees are given opportunity to talk freely in the topic area. For semi-structured interview, the researcher is allowed to omit or bring up new question flexibly during the interview as long as the questions provided from researcher and the answers of interviewee circulate around the topic.

Hence, the semi-structured interview is quite popular in qualitative research because it provides insights to the matter. Moreover, it allows the researcher to add more question in the interview in order to extend his/her finding. However, when developing further conversation with supplementary questions, the researcher needs to be cautious in maintaining the course of interview and keep response on the subject (Ghauri, Grønhaug and Kristianslund, 1995, p.65).

The research concerns the process of getting fund for start-ups in early stage and entrepreneur's opinion toward the sources of financing. This kind of data cannot be gathered by quantitative strategies since there is shortage in the number of respondents and unable to analyze with statistical methods. For that reason, the author believes that semi-structured interview is more effective and will be chosen for the purpose of data collection.

The author conducts 3 interviews with the 3 founders of Tutor Tiger, ClipMe and JerryBag in order to study further the financing aspect of early start-ups. The first interview is occurred with Kai Lemmetty the founder and CEO of Tutor Tiger, the second interview is with Joseph Oladimeji - cofounder of ClipMe, and the last one is with J.Y.Park and Seunghyun Han - the founder and cofounder of JerryBag.

3.3.3 Secondary data

Beside the primary data collected from case study and interview, researcher can vary the analyzing and discussing of the research paper by using the secondary data. Secondary data include the set of information relating to the research that has already been collected for some other purpose. It can be reanalyzed to answer or partially answer the current research questions (Saunders, Lewis and Thornhill, 2009, p.256). Nevertheless, it is obviously saving time and effort for the author by utilizing secondary data. However, the author needs to take consideration whether that secondary data is consistent with study at hand Ghauri, Grønhaug and Kristianslund, 1995, p.56).

The secondary data used to support this paper are listed as follow:

- “Cases of Start-up financing, an analysis of new venture capitalization structures and patterns” of Andrew Atherton, Enterprise Research and Development Unit, University of Lincoln, Lincoln, UK.
- “Corporate venture capital: the financing of technology businesses” by Kevin McNally, Department of Geography, University of Southampton, Highfield, Southampton, UK.
- “How opportunities are exploited” by Paula Kyrö, Agnieszka Kurczewska and Aarni Moisala, Aalto University School of Economics, Helsinki, Finland and University of Lodz, Lodz, Poland.

3.4 Creditability of research findings

3.4.1 Reliability

In research, reliability implies the possibility to come up with similar findings by other researchers and the possibility to yield the same results in the next time. As Trochim and cowriters (2007, p.149) said about the concept of reliability: “It is concerned with whether we would obtain the same result if we could observe the same thing twice”. Beside, reliability refers to the extent to which the data collection techniques or analysis procedures will yield consistent research (Saunders, Lewis and Thornhill, 2009, p.156). According to Robson (2002), there are four major threats to reliability:

- Subject or participant error: survey or interview in different time may not produce the same results. Neutral time when interviewees are not busy or stressful is preferable
- Subject or participant bias: interviewees do not reflect their own opinions in responding but reflect what their bosses want instead. Care in analysis and maintaining anonymity of respondents is advised.

- Observer error: different ways of interview may lead to different answers; structured interview schedule is suggested to avoid this threat.
- Observer bias: this threat is due to multiple ways to interpret replies.

The author takes careful consideration in forming the questions for the interview as well as arranges a convenient time for the meeting in order to avoid bias in interpreting answers and ensure the reliability of the research.

3.4.2 Validity

Validity refers to the question of "whether the findings are really about what they appear to be about" (Saunders, Lewis and Thornhill, 2009, p.156). There are two types of validity mentioned by Ghauri, Grønhaug and Kristianslund (1995, p.33): internal validity (refers to whether the results obtained within the study are true) and external validity (refers to whether the findings can be generalized). This means that internal validity implies the reliability of the finding while external validity account for whether the research can be generalized or transferred to other contexts or setting.

In the research, the internal validity is assured to be true and is verified as above. Still, the author needs to look also the external aspect of validity. Although the research is established based on case studies, the finding of the paper is a concerning topic in Finland's start-up scene particularly. Thus, the author believes in the applicability of the research finding in a broaden population is possible.

3.5 Limitations

There are some limitations and shortcomings in the paper that the author would like to mention. First, even though the time for interviewing section and analyzing section have been planned, the author still meets some problems delaying the schedule due to an unfortunate fever of interviewee. Thus, it leads to the delaying in the analyzing section as well. Second, the author might not be able to study further in the field due to the short timescale of the research in regard with the research area. Thus, in the paper, initial public offering (IPO) is described and explained briefly since the topic is more centralized about start-ups in the early stage as well as other grant programs depending in each nations will not be discussed.

Acknowledging these limitations, the researcher attempts to ensure the interview's schedule, and choosing 3 case studies as target population in order to limit the scope of the study.

4 CASE ANALYSIS

4.1 Start-ups in Finland

Generally, Finland also has nascent start-ups scenes from the beginning like many other countries. Soon after, everything has changed due to the dwindling of Nokia era which has dragged down the whole Finnish economy in the late of 2000s. During Nokia's golden time, people usually think of joining Nokia after leaving universities rather starting their own business, the perception of solid income and safety organization is better than the risk of starting own things or joining a start-up. Thus, it had resulted in the lack of entrepreneurial spirit in the country (Gilbert, 2013). The downfall of Nokia is a wake-up call to Finnish people and it also has stirred the innovation in Finnish entrepreneurship. People start to think differently, they are no longer rely on huge safety organization but instead create opportunities by opening business or joining start-ups.

However, another problem had arisen while there are more and more people were looking to set up their start-ups, the amount of investors is very little. Nevertheless, Finnish government decided to step in and spent hundreds of million euros to fill the funding gaps and Finish Funding Agency named Tekes is one of the organization that provide financial assistance to start-ups. Consequently, this act brought Finland a new shape and the promising start-ups scenes, the development in 5 years is paid off and start to bear fruit.

Till now, Finland start-ups scene is flourishing and is seem as the most vibrant start-ups scene in the world. According to some recently released figures, Finland spent €133m in public funding for start-ups, slightly more than half of the investment, €75m, was in the form of grants and the rest, €58m in loans (Sulopuisto, 2014).

4.2 Tekes (Finnish Funding Agency for Innovation)

Tekes plays an important role and bring a brighter future of Finland's start-ups scenes. Indeed, Tekes is the Finnish government's technology investment arm and it has backed hundreds of companies since it was founded including Rovio and Supercell. Tekes is the most important publicly funded expert organization for financing research, development and innovation in Finland. Plus, it also boosts wide-ranging innovation activities in research communities, industry and service sectors (Tekes, n.d.).

Within Tekes, the money used for start-ups is mostly for 3 distinct purposes: international growth, research and development (R&D) and young innovative companies (YIC). While R&D project gains most the funding which account to €80m, the rest is distributed equally to international growth (€25m) and young and innovative growth companies which is mostly start-ups (€28m) (Sulopuisto, 2014).

Moreover, there are some specialty in Tekes's working system that they never act as a start-up's sole financier. In most cases, 50 percent of the company's funding will be provided by Tekes, while the founders or entrepreneurs has to cover at least 25 percent of investment by other means. The second thing lies in its funding delivery, Tekes applies instalment delivery method in which the entrepreneurs need to meet the benchmark in order to get the next funding. Thus, it is working well in conjunctions with the "try quick, fail quick" approach. Juuko Häyrynen, the directors of Tekes, has mentioned: " the "try quick, fail quick" approach is something we are trying to do…If it does not run, forget it. Let's not spend the money" when he explained about the idea behind YIC project of Tekes (TechRepublic, n.d.).

In short, with the support of Finish government in generally or Tekes particularly, Finnish's start-ups scene is attracting more and more investors from around the world. As David Gardner said at last year's Slush conferences "Finland is great place to invest in, because co-financing from Tekes lowers risk" (Gilbert, 2013).

4.3 Case company - ClipMe

4.3.1 Introduction of ClipMe

ClipMe is a Finland start-ups company which was founded in 2013 by the founder and also CEO Ravi Kumar together with 3 of his friends as the co-founders. The company has provided us the new ways to create and share videos with friends via a mobile application called ClipMe and its video can all be shared and viewed on Facebook, Twitter or anywhere on the web. The service allows users to create 15-second videos together. With ClipMe, users can record a video and invite their friends to continue recording (ClipMe, 2014)

The first beta version of ClipMe was launched in December 2013 and only available in Finland and 3 other countries which are Canada, New Zealand and Netherlands, in order to collect the feedback of how people perceive ClipMe. Soon after, from February, they have launched the beta version that anyone can download it from all around the world.

Till now, ClipMe has succeeded in getting a good number of users from Finland, and also has worked with some celebrities such as Musta Barbaari and a couple of video bloggers which is quite popular in Finland that are using ClipMe. In addition, ClipMe also has succeeded in developing the application across several platforms (IOS, Window phone and Android) in order to maximize the collaborative attribute of ClipMe.

In financing aspect, ClipMe has been able to raise some efficient funds from private investors and public institution. ClipMe has completed a seed round from a syndicate of private investors including Vidalico, Nestholma and Eastwings. It also raised public funds from the Finnish Funding Agency for Innovation – TEKES.

4.3.2 Sources of funding – ClipMe

The process of funding

In the beginning, the idea of ClipMe derived from Ravi Kumar and he had working on it for about 1 to 2 months. Therefore, the first phase of finance was actually sponsored by Ravi, hence it was Ravi's personal fund. Then when the product was almost ready, Ravi contacted 3 others friends that are Sami Nikkinen, Henri Kirsi and Oladimeji Joseph Fakayode, they are all interested in joining and start to build their own company. When the ClipMe Company was establish, they also invested some more fund into ClipMe, and it was all about personal fund from entrepreneurs in the early phase.

Then, the next source of funding was some stipends coming from some support organizations in Espoo. Even though the fund was quite small but for ClipMe it was still usable, and with that money, they started to finance the first employee.

After that, ClipMe also looked for more capital by taking a bank loan. Thenceforth, they approached with angels investors through personal network and got more fund for the company. Finally, ClipMe applied and got accepted for funding program from Tekes.

Financing strategy

Oladimeji Joseph Fakayode, the co-founder and Business Development of ClipMe, explains in the interview about the ways of their spending money is trying to minimize some unnecessary expenses. He discusses that ClipMe is not aiming for top experts when looking for employees. Instead, the company looks for some interns that show interests and eager to learn to work for ClipMe. He also mentions, during the early stage of company, everyone in the team worked for no salary. Thus, some first capital of the company are used in building the product and paying thee developer and marketing costs.

4.4 Case company – Tutor Tigers

4.4.1 Introduction of Tutor Tigers

The idea of Tutor Tiger was derived from the holiday in Viet Nam of Kai Lemmetty- CEO and founder of start-up- as he realized people in Southeast Asia generally have difficulty in pronouncing while their grammar and writing skills are better. The problem is people know the grammar and complex word but do not know how to pronounce it. Since then, Kai was trying to deepen the problem and finding ways to develop solution because he knew it is also a global problem. As he remembered how he had learnt English at school back in Finland, reading through a text with the teacher and got corrected as he read it. Then, with the memory of his own learning experiences, he boldly applied it through online teaching method since he reasoned that tutor and pupil do not need to be face to face. That was when a new edutech company get off the ground.

Tutor Tiger has its own website where people can go online to register as user and take the starting test before applying for a tutorial, an hour-long Skype call, with professionally accredited native English speakers (Landon, 2014). After that, the company analyses the recording and classifies it into group according to the similarity of test result. At the moment, the service is currently in Ho Chi Minh City in Viet Nam where 1000 students have signed up (Landon, 2014). Talking about the future of the company, Kai has mentioned that Asia is the biggest market and he hoped to expand to others key markets in China and Southeast Asia. In additional, he also mentioned the possibility of other languages will be an option in the future. Thus, he is aiming to become global language service provider in the future and still remain the most unique features which is focused on pronunciation.

4.4.2 Sources of funding – Tutor Tigers

The process of funding

Once the idea was formed, Kai Lemmetty tested the idea by himself without anyone else and then he got to the point that the idea was viable to go for the next step. Kai shared in the interview, regarding to the business concept, first he looked for a developer since Tutor Tigers is operated online. However, he also mentioned there was no capital at all in the beginning so the invited developer had to come on board without payment but got share of the company instead. Before approaching for funding, Kai explained that they had to build a demo with some core features of business, proof of concept in a way that show to investors the possibility of idea.

From there on, Kai continued to pitch his idea to many angel investors and also Tekes. Finally, Tutor Tigers managed to raise some fund with 2 angel investors and Tekes. However, due to the different phase of start-ups and rules of angel investors and public institution, they have never invested all of the money at one time but step by step. Consequently, till now Tutor Tigers is funded both by angel investors and Tekes.

Financing strategy

With online business concept of Tutor Tigers, Kai pointed out that they do not need any office for the company and they work together as small team as possible. In that way, they can reduce the costs of renting office and still manage to work effectively with only a team of 4 people and 5 teachers.

4.5 Case company – JerryBag

4.5.1 Introduction of JerryBag

Back to 2012, Joong Yeol Park was studying at Aalto University in Creative Sustainability MA in Finland. He happened to participate to the Finland-Uganda project as prototype design manager. Park has been a product designer and his goals is trying to make sustainable product and service in local context. Thus, during to trip to Uganda, he researched the culture, economy and social issue, education system and material from s scratch. As a result, Uganda is seem to be an ideal place for Park where he can make a better idea and focus on more practical work, he then again decided to fly back to Uganda in 2013. In Uganda, while studying and researching about the local condition of Uganda, Park had suffered the poor and unclean water problem. Then, he finally came to a decision of making some designed product that can improve the water condition. However, there were tons of issues come from poor water system such as sanitation, child labor and gender inequalities. When Park was thinking about the idea for designing product, a jerrycan came into his mind. Jerrycan is a water canister frequently used in developing countries for purpose of fetching water from boreholes. Within the jerrycan, Park's first idea is "what if people can carry water canister on their shoulder like backpack, instead of holding with their hands or putting on their heads". Because it is heavy with hands and even dangerous causing chronical damage to children's neck backbone. For that reason, Park's solution to the problem is designing a backpack. From there, JerryBag is established.

JerryBag is a bag pack for putting a 10 litter jerrycan, a thin plastic water canister. The bags are made by Uganda ladies with local material which they get from Uganda central market. The business is mainly introducing the designed bags to international customers and delivering the message "water is life to all!" to customers. Some bags are directly supporting international water projects in Uganda. While other bags are delivered to Ugandan children with a strategy of one for one which was well-known by Tom's shoes. Thus, JerryBag's mission is making local products which is strongly related to local issues for the sake of solving the issues with the local people.

4.5.2 Sources of funding – JerryBag

The process of funding

Answering to the interview, Seunghyun Han, known as the co-founder and in charge of financing for JerryBag, mentioned "…we did not really think about our ability as businessmen neither the profitability of future business. Otherwise we mainly shared ideas on corporate and social responsibilities and how to include our own dreams to the company mission." Therefore, in the early stage, all the fund which took about €20 000 was from the entrepreneur's pocket. However, the first capital was still not enough and led JerryBag facing with cash shortage problem. After all, JerryBag managed to find the external fund by applying to one of social enterprise incubating program supported by an institution established by ministry of labor in Korea. Finally, JerryBag has selected and received grant guarantee of €30 000 allowed to use from April 2014 to February 2015.

Financing strategy

For JerryBag, they meet difficulty in spending the money from funding program due to some expenditure regulations of the program. Thereby, it is not allowed to use the money oversea and also prohibited to use for sales purposes. For that reason, the capital has to be allocated differently conforming to regulation. Hence, the personal fund is used to primarily focus on manufacturing in Uganda including settling costs, salaries for workers, rent fee and material costs. While, the money from the program is used for designing new products and marketing purposes like building a website, participating exhibition and showcases.

For Han, comparing material or service prices before purchasing will be the basic idea to save the expenses, as he answered in the interview. Another way is to gradually increase the production target per month in order to decrease the cost of goods in average.

5 RESULT AND FINDING

5.1 Sources of financing used by 3 start-ups

By using all the collected data through the research, the author attempts to present all sources of financing which are used by 3 start-ups in the following table.

Table 4. Sources of financing used by 3 start-ups

Sources of financing		ClipMe	Tutor Tigers	JerryBag
Sources of personal fund				
	Personal Savings	x		x
	Friends and Family			
Sources of equity financing				
	Angels Investors	x	x	
	Venture Capitalists			
Sources of debt financing				
	Bank Loans	x		
Other sources of financing				
	Public Institution	x	x	x

As demonstrated in Table 4, all 3 start-ups cases have the common point in their funding method when asking for grant from public institution. For JerryBag, the company raised fund from a social enterprise incubating program support by an institution established by Ministry of Labor in Korea. While others 2, ClipMe and Tutor Tigers got funded from Tekes, a public institution in Finland. However, although the public fund is always available and supported by government, still it is not easy to get to the final phase and receive the fund. For that reason, entrepreneurs need to prove that the start-up is viable and has growth potential along with unique idea. Comparing to 3 cases analysis, each of them has own features in order to make the breakthrough in their own field. ClipMe offers a new way to create and share video with friends, Tutor Tigers combines the education with technology to provide extreme useful coaching method while JerryBag focuses on the product sustainability to protect the environment. In additional, entrepreneurs come to public institution not only for funding capital but also for its supporting. Basically, public institution offers advices to start-ups and observes the process of start-ups via funding round by round in order to ensure the greater success rate.

In contrast, as ClipMe is the only one taking a bank loans among 3 start-ups, Joseph-cofounder of ClipMe, shared his viewpoint towards bank loans. He thought bank loans would be faster to get than looking for investment as long as the business is viable, and it takes approximately 2-3 weeks to get a loans compare to 2-3 months when going for investment. However, Joseph also mentioned about the risk of taking bank loans in case the business is not going well. With the same thinking, Han, the cofounder of JerryBag, did not consider bank loans as his option of funding in first stage. Plus, Han also mentioned about the difficulty to get loans without any collaterals due to the banking system in Korea. Nevertheless, bank loans is a good ways to raise capital, however, due to its risk and paying interest disadvantages, majority of entrepreneurs do not consider bank loans as their option for funding in early phase, especially for fledgling businesses. Moreover, another research which had been conducted before by Kevin McNally also supported the same finding that external equity finance is more appropriate for financing needs than debt finance (Mason and Harrison, 1994; Standeven, 1993). In additional, the reluctant to invest of bank also relates to the limited collateral of business (Moore, 1994; Philpott, 1994).

5.2 Comparison between 3 start-ups

In the other hand, by matching the data finding with the theoretical framework through some mentioned patterns (in section 3.3.1 Case study), the author comes up with table presented in Table 5.

Table 5. Result of pattern matching

Criteria	ClipMe	Tutor Tigers	JerryBag
Origination of idea	Looking for a new ways of creating and sharing video	Realizing that Asian people face with pronouncing problem and then looking for a solution	The poor water system in Uganda has become a motivation for Park to create a new sustainability product
Sources of financing (in order)	Personal funds Bank loans Angel investors Public Institution	Angels Investors Public Institution	Personal funds Public Institution
Process of financing	Depend on the stage and type of the company	Depend on how business goes	The funding maybe differ regard the period and circumstances
Financing strategy	-Using money focus on building product and pay developer and marketing cost -Hire intern	-No office for cutting expense -Small team but effective	-Allocating the right money for the right purpose -Aim for higher productivity in order to lower cost of goods.
Approaching methods	Personal networks	Personal networks	Social enterprise program
Entrepreneur's viewpoint for a successful start-up	-Working for the idea and show the work to investor -Working as a team -Presenting skills	-Working on demo and core features of idea to show to investors -Presenting skills	Show the investors the work you have done so far

Yin (1994) stated that the purpose of a case study lied in its analytical generalization. According to Pauwells and Matthyssens (2004), "through analytical generalization an investigators aim at testing the validity of the research outcome against the theoretical network that surrounds the phenomena and research question". Therefore, in order to prove the validity of the finding, the case result needs to be compared with the theoretical framework. In this study, the author attempts to use some sources of financing and some related aspects (process of financing, approaching method) as a template to compare the research finding as showed in Table 5.

As showed in Table 5, three interviewees all gave the same answer when they were asked about the process of financing and preferable sources of funding, the answer was "depend on how the stage and type of business". Kai Lemmetty, CEO and founder of Tutor Tigers explained that there is no rules in the process of financing, and also for each investors there are many rounds of funding. Thus, it varies case by case, and according to Barringer and Ireland (2010), there are 3 preparation steps that entrepreneurs need to carry out carefully to increase firms' chances of success. It is illustrates as following Figures 4.

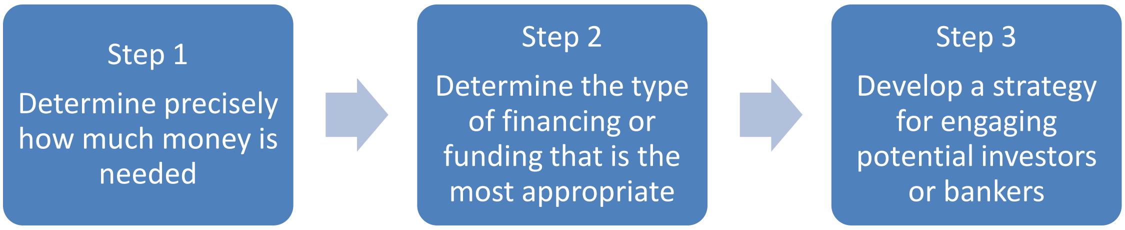

Figure 4. Preparation for Debt or Equity Financing

The purpose of knowing exactly the needed money in step 1 can be explained in two reasons. First, it is to avoid the shortage of capital when operating, and also eliminate unnecessary expenses. Second, entrepreneurs cannot persuade investors when they are still not uncertain about the money required for company operating. Thus, the step 1 needs to be carefully considered by entrepreneurs before coming to next step. In step 2, entrepreneurs need to figure out the most appropriate type of funding depending on company situation. Commonly, there are 2 main types of funding (equity and debt financing, presented in Literature Review). Therefore, at this point, entrepreneurs need to know clearly about all pros and cons of each sources of funding and select the most applicable depending on company condition. Obviously, entrepreneurs can raise money from many sources of funding for best result. From then, strategies for engaging potential investors or bankers are developed by entrepreneurs which is showed in step 3 of Figures 4.

In both 3 case studies, the second step of preparation is considered thoroughly and carried out exactly, result in the success in getting the sufficient fund in each start-ups.

From then, each start-up has developed a suitable financing strategy in order to reduce the expense and enhance the cash-flow in early stage, which is also known as the bootstrapping method. For ClipMe, the early capital which was from personal funds is used for building product, paying developer and marketing costs. The whole team works without any payment until they raised some funds from investors. Furthermore, ClipMe's strategy was looking for intern who know a little in specific field and eager to learn. While Tutor Tigers is based on online business concepts, hence, they utilized the online platform in order to cut the cost of renting office. In the case of JerryBag, although they have faced with some troubles in spending the fund due to the expenditure regulation from the granted program, but they still manage to run the business effectively. Seunghyun Han shared his strategy in the interview, the money from personal funds is invested on manufacturing in Uganda while the money from grant program is used for designing new product and marketing purposes.

Last but not least, another resemblance showed in Table 5 is entrepreneur's viewpoint towards successful start-ups. Three interviewees shared the same attitude when being asked about successful start-ups. In order to succeed funding for start-ups, entrepreneurs need to prove their ability of turning the idea into practical when approaching investors. Thus, they must come to investors with something in hands, for example, a sample of product, a demo with core features, some work structures or work processes. In addition, presenting skills is indispensable when pitching to investors, as Kai mentioned, "when you raise funding, you have three important documents which is pitch presentation, financial excels and executive summary and those need to be really good". Besides, Joseph and Kai also agreed that the best way to approach investors is through personal networks and being trusted from others is a good starting point.

6 DISCUSSION AND CONCLUSION

The aim of this research is to explore the factors leading to successful funding for start-ups by studying different processes of financing. With 3 case companies, all the issues related to funding such as sources of financing, the process, approaching methods and entrepreneur's point of view are discussed in the interview in order to provide useful recommendations on success funding for start-up. Plus, the literature review about funding and financing is presented in order to ensure in-depth understanding of thesis. In the paper, the researcher conducts interviews with the founders from 3 start-ups to gain a better understanding or insight knowledge about financing a company. Then, by adopting pattern matching methods, the author examines how three cases support the theoretical construct. In the result section, the author compares the correlation between three cases analysis with the theoretical and give some suggestions for start-ups to implement and increase higher chance of success funding.

The research contributes to the theories of sources of financing by consolidating and building explanation around theoretical review while collecting data and analyzing them. As Yin (2003) has referred it as explanation building, a special type of pattern matching. Therefore, the explanation building method is used in order to answer the research question: “What can entrepreneurs do in order to increase chance of success in start-up financing?”. Through three case analysis, the finding indicates that equity finance is more preferable for start-ups needs than debt finance. In the aspect of equity financing, venture capitalist is not suitable for start-ups in early stage due to its high requirement. Thus, majority of start-ups usually look for local angel investors as their first option for raising capital. However, in order to approach angel investors, entrepreneurs need to have a wide personal network. Joseph, the cofounder of ClipMe shared his view toward the issues, “it is all about trust, you need people to introduce you to investors”. The same goes with Barringer and Ireland (2010, p.348), they also mentioned that “to have business plan noticed, find someone who knows the bankers or the investors and ask for an introduction.” Nevertheless, a great personal network is one of the factors leading to success for start-ups financing.

Moreover, governmental public institution is recommended sources of financing for fledgling businesses. As the start-up scene at the moment is flourishing with high potential growth, the government always finds and provides support in order to boost the ecosystem in each country. Hence, in order to benefit the start-up, it is necessary for entrepreneurs to search for capital as well as significant advices from public institutions.

In addition, it also shows that no investors are willing to invest unless they are interested in the business. For that reason, it is important for start-up to take into consideration when selecting which investors to work with. The finding also supports that bootstrapping methods need to be known and used wisely by every entrepreneurs in order to enhance the cash-flow in early stage of business. In addition, it is fundamental for companies to prove the potential of their business ideas when pitching to the investors by presenting some draft work, samples or demo versions. Finally, entrepreneurs need to pay attention to their presentation since a good idea is only promising when it is presented properly in order to attract lenders and investors. Likewise, Barringer and Ireland (2010, p.348) stated that the presentation should be as polished as possible and should demonstrate why the new venture represents an attractive endeavor for the lenders or investors.

To summarize of all the discussion from above, the author has some suggestions on what entrepreneurs could do in order to increase chance of success in start-up financing, which are:

- The idea needs to be good, unique and viable in order to attract investors and public institutions.
- Entrepreneurs should look for funding from public institution regarding their financial support and also appropriate advices for start-ups.
- Personal network is the key factor in approaching angel investors and it is good for entrepreneurs to have someone introduce them to angel investors.
- Depending on the particular circumstances, entrepreneurs need to have suitable preparation process and it must be implemented carefully.
- Entrepreneurs need to keep in mind bootstrapping method and use it effectively in business operation.
- Entrepreneurs need to prove their financing effort and the ability of turning business idea into practical things (e.g. testing product, beta version, and demo) before pitching to investors.
- Entrepreneurs need to pay attention in their presentation skills.

In conclusion, the topic of financing for business is a common topic to everyone; however, as the start-up trend seems to grow globally, it results in extreme competition. Thus, the higher chance of success depends on how entrepreneurs understand the aspect of financing. It consolidates the author’s attempt in making an in-depth finding around the topic. The author hopes to bring a variety of aspects about financing for start-ups through the research. However, as this research paper is limited in three cases, the author believes that there are more existing issue need to be explored within the topic.

REFERENCES

Barringer, B. R. and Ireland, R. D. (2010) **Entrepreneurship Successfully Launching New Ventures**. 3rd ed. Pearson Education, Inc.

Ou, C. (2006) Banking and SME Financing in the United States. **SBA Office of Advocacy** [Internet], (277) June. Available from: <http://www.sba.gov/advo/research/rs277tot.pdf>.

ClipMe (2014). **ClipMe** [Internet]. Available from: <https://clipme.in/press/> [Accessed 9th November 2014].

Ghauri, P., Grønhaug, K. and Kristianslund, I. (1995) **Research Methods in Business Studies**. 4th ed. Prentice Hall Europe, Hertforshire.

Gilbert, D. (2013) Finland's Startup Scece: Making the most of its unfair advantage. **International Business Times** [Internet], 25 November. Available from :<http://www.ibtimes.co.uk/finland-tech-scene-making-unfair-advantage-525013> [Accessed 5th November 2014].

Hopkins, J. (2006) Where Do Start-Ups Get Their Money. **USA Today** [Internet], 24 October. Available from <http://www.usatoday.com/money/smallbusiness/2006-10-18-small-finance-usat_x.htm> [Access 2 October 2014].

Landon, V. (2014) Spoken English gets boost from Finland's Tutor Tiger. **Good News from Finland** [Internet], 27 August. Available from: <http://www.goodnewsfinland.com/archive/news/spoken-english-gets-boost-from-finlands-tutor-tigers/> [Accessed 10th November 2014].

Koba, M. (2013) You hear lots about crowdfunding, but what is it? **CNBC explains** [Internet], 23 October. Available from: <http://www.cnbc.com/id/101136608> [Accessed 3 October 2014].

Lewis, M. (2014), **Peer-to-peer Lending** [Internet], MoneySavingExpert. Available from: <http://www.moneysavingexpert.com/savings/peer-to-peer-lending> [Accessed 13 October 2014].

Zwilling, M. (2013) 10 More Creative Ways To Finance your Startups**. Forbes** [Internet], 3 June. Available from: <http://www.forbes.com/sites/martinzwilling/2013/03/06/10-more-creative-ways-to-finance-your-startup/>. [Accessed 13 October 2014].

Mason, C. M. and Harrison, R. (1994) **The role of informal and formal sources of venture capital in the financing of technology-based SMEs in the United Kingdom**. Paul Chapman Publishing, London, pp.104-24.

Meer-Kooistra, J. (1993) **Coordineren, Motiveren en verrekenen, Wisselwerking tussen omgeving, onderneming en mensen**. Groningen: Wolters-Noordhoff.

Moore, B. (1994) **Financial constraints to the growth and development of small high-technology firms.** Finance and the Small Firm, Routledge, London, pp.112-44.

Paulwels, P. and Matthyssens, P. (2004) **The Architechture of Multiple Case Study Research in International Business**. Hanbook of Qualitative Research Methods for International Business (ed.) R. Marschan-Piekkari and C. Welch. Edward Elgar.

Philpott, T. (1994) **Banking and new technology-based small firms: a study of information exchanges in the financing relationship**. Paul Chapman Publishing, London, pp.68-80.

Ries, E. (2010) What is a startup? **Startup lesson learned 21 June** [Internet blog]. Available from: <http://www.startuplessonslearned.com/2010/06/what-is-startup.html> [Accessed 30 September 2014]

Robson, C. (2002) **Real World Research**. 2nd ed. Blackwell, Oxford.

Saunders, M., Lewis, P. and Thornhill, A. (2009) **Research Methods for Business Students**. 5th ed. Pearson Education Limited, Harlow.

Scarborough, N. M. (2009) **Effective Small Business Management "An Entrepreneurial Approach".** Pearson Education, Inc.

Standeven, P. (1993) **Financing the early stage technology firm in the 1990s: an international perspective**, discussion paper prepared for the Six Countries Programme Conference on ”Financing the early stage technology company in the 1990s: an international perspective”, Montreal.

Sulopuisto, O. (2014) Finland poured €133m into startup funding last year. **ZDNet** [Internet], 31 January. Available from:<http://www.zdnet.com/finland-poured-133m-into-startup-funding-last-year-7000025826/> [Accessed 5th November 2014].

TechRepublic (n.d.) **From Angry Birds to Nokia castaways, Finland’s startup scene has huge ambitions** [Internet], TechRepublic. Available from: <http://www.techrepublic.com/blog/five-apps/from-angry-birds-to-nokia-castaways-finlands-startup-scene-has-huge-ambitions/> [Accessed 6th November2014].

Tekes (n.d.) [Internet]. Available from :<http://www.tekes.fi/en/tekes/> [Accessed 6th November 2014].

Trochim, William M. K. and Donnelly, J. (2007) **The Research Methods Knowledge Base.** 3rd ed, Mason, OH, Thomson Custom Publishing.

Li, C. (2013a) **Infographic: The most active investors in Europe revealed** [Internet], Venture Village. Available from: <http://venturevillage.eu/infographic-most-active-investors-europe> [Accessed 25th September 2014].

Li, C. (2013b) **Not just sauna and Angry Birds – How the Finnish tech scene is bubbling into a startup hothouse** [Internet], Venture Village. Available from: <http://venturevillage.eu/finland-startup> [Accessed 30 September 2014].

Bygrave, W. D and Quill, M. (2006) **Global Entrepreneurship Monitor: 2006 Financing Report**. Global Entrepreneurship Research Association, p.23.

Yin, R. K. (1994) **Case study research: Design and methods**. Newbury Park, CA:Sage.

Yin, R. K. (2003) **Case Study Reseach: Design and Method.** 3rd ed. London:Sage

YS Research (2012) **Perceived Biases of VC investments-VC Perception Survey Report** [Internet], YourStory. Available from: <http://yourstory.com/2012/08/perceived-biases-of-vc-investments/> [Accesses 2 October].

APPENDICES

Appendix 1

INTERVIEW TRANSCRIPT WITH COFOUNDER OF CLIPME. OLADIMEJI JOSEPH FAKAYODE

Date: Octorber 29th 2013, at 12h00

Duration: 25 minutes

Venue: ClipMe Office (Helsinki)

Interview method: semi-structure, audio recording.

Interviewer (Phuc – P): *Could you please briefly tell me how you came up with the idea, and your process to establish the company (for example: how did you form the team, how did you apply for fund or raise the initial capital)?*

Interviewee (Joseph – J): Ok, so ClipMe was ready in 13th November and before the company was founded, Ravi was as the register working on the idea, so Ravi is my partner and is the main guy behind the idea of ClipMe. He worked for few months (1,5 or 2 months) and then when the product was almost ready, he contacted myself and 2 others guys that will be interested in joining in to build the company, so that is the original background of it. Then, we register the company and we launched the beta product which was in December shortly before Christmas and we launched it in Finland and 3 other countries which was Netherlands, Canada and New Zealand just to see how people will use this kind of application.

In February, we released that beta which is like the main piece right now (kind like beta 2) which was basically functioning and it was released not just in Finland but anybody can download it from all around the world. That is a bit about the background of company and about the launching of product.

What ClipMe does is basically sort of providing new way for people to share, collecting experiences via 15 second collaborative videos and the result of video can be share on twitter facebook or anywhere on the web. This is a mobile application, we have launched it in IOS (Apple) first and since then we gathered feedback from user and figure out how we can improve, how the application work and just last week, we released on Window and Android.

P: Yeah, that is good news. Then could you tell what your motivation when working on the product is?

J: Well, I am an entrepreneur and I would like to see idea come to life and I have been doing this for long time in my life. When Ravi brought this idea, I thought this is the opportunity for me to do something different because this is social, fun and it is right joining ClipMe.

P: So far, what kind of achievement you have get within the company?

J: I think till now, the main achievement is that we have been able to get a good number of users from Finland and not just about that we also had some celebrities to work with such as Musta Barbaari and we had a couple of video bloggers which is quite popular from Finland that are using ClipMe. And we also been able to raise some efficient fund to keep the company going, and we had that from both private investors and public institution. Then, we have been able to expand across the platform such as IOS, Window and Android.

P: Ok, I get it now, that sound great. And come to the finance aspect, so how did you finance for the start-up at the first phase?

J: So the first phase of the finance was actually sponsored by Ravi, he invested the money in the beginning

P: yeah it is personal fund

J: true. And then when we found the company, we also invest some more fund so in the first phase is was personal fund from entrepreneurs.

Now the second phase we got some stipend from some support organization in Espoo which is also very small, but that one help us to finance our first employee.

P: So what kind of financing it is? I think it is not angel investor right?

J: yeah it is not, it is more like public institution. The third phase of our finance is we got some personal loans

P: and it is the bank loans for company or..?

J: yes, for the company. And then the next phase was we got public institution and angel investment. So if I group it in phase it would be personal investment, then bank loans and then angel investment and last public institution like Tekes. That's how we finance up till now and we call it seed round in financing.

P: Yeah I know that technological based start-ups need a strong capital for operating

J: Well, if you look at it right now, the way ClipMe structure, it depends on the community because if you don't have the community you probably would not get any revenues. Thus, we want to focus on building the community first then having the content and move to later finance phase later.

P: One more thing to mention, could you briefly tell me about Tekes? Is the application difficult to apply for?

J: No no, I think Tekes is so friendly to start-ups in Finland since you have something unique. So there is no difficult for us. Basically, you just go online to the website and they have different projects depending on what phase your company is. Then, when you identify which phase your company is, you have an online form to field. After that, they receive the form and will give you a call to validate some information you had given in the form. If they think you are viable for Tekes then they invite you to the meeting where they would guild you a bit on how you can structure the project so that everything is fine. You will have a higher chance of succeeding when you listen to them.

P: So beside financing you also receive a lot of support from Tekes

J: yes, sort of like advices in that sense. And then you make a project plan based on that, they review it and approve the form. However, about the way they work, Tekes doesn't give the money in advance, they pay it after you have spent the money. It means they doesn't give money beforehand, you have to spend your own money first and then come back to them for collecting the money. Thus, you have to manage yourself to figure out the way you raise that money for.

P: That's also my next question. In the early stage, every start-ups need lots of capital, but it is quite little. So what are your strategies of spending in the first phase? Have you used any methods to minimize expense or to enhance cash-flow?

J: The way we minimize expense is that when looking for people, we are not aiming for top experts but we went for the one that know a bit and they wanna learn and then in that sense we can offer them some low salaries and equity in the company. Moreover, in the beginning, we are not earning any salaries, from November until May, for 7 months, they found that the company were not earning any money. Thus, during early time, we used the money in building product and paid the developer and some marketing costs.

P: so it is kind of bootstrapping by hiring intern for company, right?

J: exactly, that's some kind of strategies we had, I would say that is probably the main thing to help us keep cost low. Then, after we had raised the seed fund, that is when everyone came on board full time, and from then the cost is starting to increase.

P: ok, thanks. Now come to some sources of financing. Could you tell me regarding raising capital for start-ups, would you prefer using bank loans or investment?

J: well, that is quite tricky question. But I think it depends on the stage of the company and probably on the type of company. I would say that there is no free money, so before you invest or put money in, they will not give you the money for free, they need to have interested in your company. Sometime it depends on type of investment, so it is important when you select what kind of investor you want to work with. Some investors give you money and provide you additional supports while others just give money and not interfere in company. But for my experiences, I would say it is probably better to have investors and investors must have value to you so they are not only give you the money but they also provide you the network, resources, idea on how to grow the company and mostly you are not in debt. While if the company take bank loans and it goes bankrupt, everybody might lose everything. Of course in case of taking bank loans, when the company goes bankrupt, it depends what type of loans you have. Sometime you have to personally guarantee for the loans and you might have to face some consequent as the company is down.

P: Well, you also tell me the pros and cons of these type which I intend to ask in the next question, so is there any pros in getting bank loans?

J: well, bank loans would be must faster to get, because if you have a viable business, you can go to the bank and get decision within 2 to 3 weeks (of course depend on how high the money is). But, if you go for investment, you have to do the due diligence, longer process, I think it would be 2 months or even 3 months.

P: So how have you approached to the investors?

J: It is from my personal network, and also other co-founder's personal network too. I have been to Artic Start-ups and couple of events just to talk to investors but they have never really been successful. Thus, the best way to raise fund for your start-ups is explore the network, especially are the angel investments. Because it is all about trust, you need people to introduce you to investors and say like "we know this guys and he can do very well". In addition, there is one thing that is also important before approaching those investors you need to keep in mind. At the beginning when you have the idea, it is very difficult for you to raise capital and the best way for you to raise some capital is from your own or some friend and family members to get the product out, or some structures and go to the investors and show those structures because they would like to see what can you do with your idea and it would be more easy to attract their funding.

P: As you said, you have approach angels investors for raising capital. My question is what need to be done or prepare to persuade investors interested in your start-ups?

J: I think in many case when approaching an angel investor you are doing something called concept pitch. Concept bitch is that you don't have it there, you only have the idea, or maybe the prototype of product or beta version, you just pitching to the investors and tell them the idea you have for the future and what you think the product will become.

P: ok, now to the last question. Could you please tell me what is the factor that brought the success to your start-up's financing?

J: I think in the beginning, we have lots of challenges, but we manage to get to point we have the product and it increases our credibility a bit. Second, we have a good team, and we need complementary skill from everybody

P: that's all for the interview, thanks for helping me. I hope you and the company are all doing great.

J: Thanks, anytime.

Appendix 2

INTERVIEW TRANSCRIPT WITH CEO OF TUTOR TIGERS: KAI LEMMETTY

Date: 3rd November 2014, at 9h30

Duration: 60 minutes

Interview method: semi-structure, through skype.

Interviewer (Phuc – P): *So first of all, it is about the company background. Could you briefly tell me how you came up with the idea?*

Interviewee (Kai Lemmetty – K): ok. I got the idea when i was travelling in Vietnam

K: I met lot of people here and I had problem understanding what they were saying. The problem here is people know the grammar and words but not how to say them. So it struck me here and i eventually realized it's a global problem that happens everywhere. At schools and universities, they only focus in grammar and words, not in pronunciation. Then I started staying more about the problem and developing solution for it

First, I started thinking how did i learn to speak English. In Finland in school we had this exercise where we read aloud piece of text from text book. Teacher is listening and correcting mistakes. And I thought that why not take that use case online. Then I started teaching Vietnamese students on Skype by myself

P: so it is like you open an online teaching program for Vietnamese student?

K: all Vietnamese people, not just students. Actually our service seems too expensive for students. In Vietnam we target people over 23 years and also other countries we target younger people too

P: Can you tell me the process of establish your start-ups like how you form the team?

K: Well. I did all kind of testing for the idea I could without anyone else. After I was testing my idea by myself, at some point I got to point where I still thought it was a good idea and wanted to take it to next step. For my online business idea, you need to code something so first person in team I need usually is a developer. I started looking for one. I never have money in the beginning so developer has to come on board without pay but they get share of the company. Everyone works for free until we raise funding. Then when we get first round of funding we start paying salaries

K: also, usually there's no reason to start company before you have something up and running

P: Can I know the company visions and aim at the moment?

K: The vision is to be global language service provider in next couple of years. We focus in pronunciation and that's our unique focus

P: How did you finance for the start-ups at the first phase (personal fund, friend and family)

K: well no one was getting paid for the first 2 months so no money needed. And if we had to pay something we just paid by ourselves, like the domain. It's free to build start-up if you are developer or have developer in your team. If it's not free, then you need to think if you are doing something wrong.

P: So the money for the domain is from you, the founder right?

K: yes. I think it's important that people don't start-up by looking for funding. You should be able to start without any money from anyone. Of course domain costs and bus ticket to meet customers but not really :)

K: after you have demo and some idea what customers think - then look for funding

P: so which is the first source of funding you get for your company?

K: angel investors and usually by myself in that stage. Also, conferences are useful when looking for funding, for example slush.

P: and in this case, you have found angel investors within your network and they are interested in the idea.

K: yes

P: Now, could you briefly tell me the process of funding? Like after angel investors, what is the next step?

K: ah. Depends how business goes. There could be many angel investor rounds and then VC round or exist before that. There’s no rule on that

P: ah okie, but in your case what is it about? What is the second sources of funding you have got?

K: we've raised already 2 angel rounds and next round is hopefully with VCs

P: is there any public institution like Tekes involve in the funding?

K: yep, we were funded by Tekes too

P: so it is like 2 angel investors and Tekes. Are those happen at the same time or angel 1st then Tekes after?

K: investor number 1, Tekes, investor number 2, Tekes. And you always need private money to do Tekes projects

P: According to what I know, Tekes is friendly and offer lots of support, in your case, do you meet any difficulty in applying for Tekes?

K: nope. Pretty straight forward

P: it is like, you have unique idea, they think it is viable and invite you for more discussion, isn’t it?

K: true

P: Have you used any methods to minimize expense or to enhance cash-flow?

K: well, i guess we have no office. And one more thing is having as small team as possible

P: how about employer? Do you look for any interns?

K: Actually, not now, we have no time to manage intern at this stage.

P: So the company does not get any bank loans, doesn’t it?

K: nope

P: Have you ever thought of getting bank loans?

K: yep but right now I do not need yet

P: Since you are funded by angel investors and Tekes, could you tell me in your opinion the pros and cons of these sources?

K:

Angel investors

Cons: slow and often invest very small sums in Finland

Pros: there's many of them. A lot

Tekes

Cons: sometimes they don't understand new businesses

Pros: it's free money and almost free loans

P: What do you think is the most important issues for start-ups to get the investment or funding?

K: For me, it is all about your idea whether it is good or not. However, sometimes people don't know how to present their business, they did not go to business school and learn how to play with excel and do market analysis etc. It is about the entrepreneur's business skills. When you raise funding you have three important documents which is pitch presentation, financial excels and executive summary. Those have to be really good. In other words, it's more about presenting business itself such as know the market, know how big it is, know how to make money, make sure your product is different and creates value.

P: ok, come to the last question. From your own experiences, could you please tell me what is the factor that brought the success to your start-up's financing?

K: Well, it is about all the thing I cover before. For me, first you need to have your own network, in my case, I looked for people through my network and selling the idea to them since I do not have any money from the beginning. I knew lots of developer and I pitch my idea to them. Then, we together look for funding, we focus on building a demo with core features of the business, in the beginning, we tested the idea with potential customers. By that way, we showed the proof of our concept to investors to prove what we can do for the idea.

P: Ok, I think that's all for our interviewing ;)

K: ok, great, if you need anything else let me know

P: Thank you for sharing lots of information. Have a nice day, Kai.

Appendix 3

INTERVIEW WITH COFOUNDER OF JERRYBAG: SEUNGHYUN HAN

Date: 5th November

Interview method: semi-structure question in writing form

Company background

- Could you please briefly tell me how you came up with the idea, and your process to establish the company (for ex: how did you form the team, how did you apply for fund or raise the initial capital).

- Please feel free to share here the story behind your start-up. I would love to know your visions, aims and your motivations.

About the idea, it goes back to 2011. JY (Joong Yeol Park) was studying sustainable creative design at Aalto University, and happen to participate to the Finland-Uganda Unicef project as prototype design manager. There for the first time in his life, visited Uganda.

He flew back to Uganda again in the next year to find whether he can make a better idea and do more practical works. He did several design works including tire shoes, and so on. There he suffered painful waterborne diseases probably because of drinking polluted water. Then what came into his mind was the poor water condition, especially in countryside and jerrycan. Jerrycan is a water canister frequently used in developing countries for purpose of fetching water from boreholes.

His first idea was, 'what if people can carry water canister on their shoulder like backpack, instead of holding with their hands or putting on their heads. Because it is heavy with hands and even dangerous causing chronical damage to children's neck backbone.

His solution to this problem was designing a backpack. Especially he used jerrycan itself as a raw material for bags to carry message of water issues in Uganda. Definitely it is a symbol of poor water conditions in many developing countries. And also, some sales revenue of this bag was donated to water project through Child fund serving in Kiboga area, Uganda. It was used for purifying water in 2012, building a water tank in personal house in 2013.

While he was developing the project and product in more practical and more impactful way, he frequently talked his idea with his friends including me (Seunghyun Han).

Talking and sharing ideas every week for more than 6 months, we finally made a team, in purpose of establishing a company. We came to an idea that the form of corporation will give sustainability to this project, since self-generated profit can be used as a source of operating company as well as the project resulting continuous impact to water issues.
On discussion about forming a team, we didn't really think about our ability as businessmen neither the profitability of future business. Otherwise we mainly shared ideas on corporate and social responsibilities and how to include our own dreams to the company mission.

The first thing we were to do was feasibility test on production from Uganda. Because producing from the place bearing the problem was one of our corporate mission. We believe donating from outside is not the ultimate solution to any issue. From February to May 2014, for 4 month, we conducted designing, searching and training workers, rented a workshop and registered as a company in Uganda.

All the fund, which took about €20,000 was from our own pocket, some from part time job and some were from the earlier savings. However, operating business without any sales lead us on incredibly fast shortage on cash.

Therefore we found for external funds and applied to one of social enterprise incubating program supported by an institution established by ministry of labor in Korea. Teams of impact Ideas and practices were selected through documentations on business and impact perspectives, interview and final competition. We passed the final round and received grant guarantee of about €30,000 allowed to use from April 2014 to February 2015.

Capital &Finance

- How did you finance for the start-up at the first phase (personal investment, bank loan, angel investor, etc)? How much would it need for the initial capital?
- What are your strategies of spending in the first phase? Have you used any methods to minimize expense or to enhance cash-flow?

Personal Investment from our own and funding from the social enterprise incubating program was the main source of our first stage establishment. We succeeded funding € 50,000 in total. Since we were in manufacturing field and operating our business in remote country, the fund amount is not enough. Indeed, there was some expenditure regulations on using the fund from the incubating program. Basically it was not allowed to use in overseas, and also prohibited to use for ‘sales’ purposes. Indeed it was a big obstacles for us.

The first stage comprise feasibility test for our business. Therefore practicing the whole cycle from manufacturing to sales including all the way of logistics is one of our goal in the first stage.

We had to allocate our funds differently because of the regulations. We invested our own money mainly focusing on manufacturing in Uganda. Settling costs, salary for workers, rent fee and material costs. The fund from the program was used for designing new products and marketing purposes like building a website, participating exhibition and showcases.

Comparing material or service prices before purchasing will be the basic idea to save the expenses. Other than that we gradually increased the production target per month, resulting decrease in average cost of goods.

Fundraising

- Regarding raising more capital for your start-ups, would you prefer using bank loan or investment?
- Which type of financing sources are you using at the moment and its pros and cons?

- *How have you approached to the investors?*
- *What is the most important issue for start-up to get the investments or funding? (for e.g.: critical point in funding application, elevator pitch, idea or team, etc.)*
- *From your own experiences, could you please tell me what is the factor that brought the success to your start-up's financing?*

The preferable fund form may differ regarding the period and circumstances. We didn't think about bank loan at the first stage for the two reasons. First, considering Korean banking system, it is almost impossible to get loan without collateral. Second, if we fail in business after using bank loan, it makes us even harder for the future business opportunity. We preferred investment from venture capitalist because we don't have to worry about the right of management issue at the starting phase and we could even utilize their experience in financing and managing the company.

Therefore we searched for grant and investment opportunity. We tried several competitions for social enterprises and normal start-ups. We contacted whoever possible related to the competitions or incubating institutions to tell our ideas and receive feedbacks. Because they have seen so many start-ups like us and were expertise in selecting the right firm, so they might help us find out our weakness. We also contacted potential B2B consumers for proposing joint projects. We met venture capitalists in person to person for investment request.

Luckily we succeeded in passing one of competitions and using the grant from the program. I think the most important thing in succeeding the fund raising in our case was, not just showing the market, will and passion, but showing the work we have done so far. There was one venture capitalist who showed interest to our work last year, but we failed to get investment from him. However we happen to meet him again this year and what he told us was that he was impressed by we were 'still' in the business and showed interest again. Although we are not expecting an investment from him at this moment, however, I believe the probability rose. Actually what he told us last year adding to saying sorry was 'Keep making your own track anyway'